

Chapter 16

Reporting requirements

Notes on completing the Quarterly Return (CQ) for credit unions

FSA Handbook Reference: SUP 16 Ann 15(1)G

January 2007

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General information

The Quarterly Return (CQ) is to be completed by all *credit unions* in Great Britain as at end March, end June, end September and end December. This form should be completed using the accruals-based accounting method.

Please read *CRED* in conjunction with these reporting instructions.

Send the fully completed Quarterly Return (CQ) to **The Financial Services Authority** in accordance with *SUP* 16.3.6R – *SUP* 16.3.13R (See *CRED* 14.10.4G) **within one calendar month** after the quarter to which it relates. Failure to do so is a breach of your regulatory requirements, as laid down in *CRED*, and may result in your *credit union* being subject to *FSA* sanctions.

Page numbers that appear in the text of these Notes refer to the pages of the Quarterly Return (CQ), not to the pages of these Notes (CQN).

Words in italics denote defined terms which can be found in the Glossary to the main *FSA Handbook*.

"*CRED*" means the Credit Unions Sourcebook.

"*SUP*" means The Supervision Manual (part of the main *FSA Handbook*)

"*APER*" means the Approved Person Manual (part of the main *FSA Handbook*)

'CUA 1979' means the Credit Unions Act 1979.

If there is no figure to be entered in the box please insert "nil" or "N/A" as appropriate.

Care should be taken to avoid errors. The *approved person* who signs the Front Page of the Quarterly Return (CQ) should initial any alterations to entries. Correction fluid should **not** be used in correcting entries.

All information should be legible, especially the name of the persons signing the Quarterly Return (CQ).

If you have any questions, please contact the following number: **0845 606 9966**

Front page

Name	Insert the registered name of the <i>credit union</i> .
Firm reference number	Insert the number assigned to the <i>credit union</i> by the Financial Services Authority.
Reporting date	Insert the date of the end of the quarter to which this return applies

Membership and complaints contact

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Membership	<p>Indicate in the appropriate boxes the number of persons currently in each category.</p> <p>"Member" refers to a member (qualifying or non-qualifying) over the age of 16, who can save up to £5,000 or 1.5 per cent of the assets of the <i>credit union</i>, whichever is the greater. [A qualifying member is a person who fulfils the membership qualification: a non-qualifying member is a person who no longer fulfils the membership qualification, having once done so.]</p> <p>"Juvenile depositor" refers to a depositor under the age of 16 (a person too young to be a member), who can save up to a maximum of £5,000, but cannot take out a loan from the <i>credit union</i>.</p>
Complainants contact point	<p>Tick "Yes or No" as appropriate.</p> <p><i>CRED</i> 17.6.9R states that a <i>credit union</i> must inform the <i>FSA</i> of any changes to the single contact point within the <i>credit union</i> for complainants. If there have been any changes to your complainants contact point since your last submission to the <i>FSA</i> you will need to provide the new details in the boxes provided.</p>

Signature

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Signature	<p>The Quarterly Return (CQ) states that the signatory must be an <i>approved person</i>. The signatory should not be an officer on the Supervisory Committee or an officer approved for the <i>non-executive director function</i>. This means that the person signing the Quarterly Return (CQ) will hold an approved function on the committee of management or that of the <i>chief executive function</i>. The criteria for <i>approved persons</i> are set out in <i>CRED</i> Chapter 4 (Senior management arrangements, Systems and Controls) and Chapter 6 (The Approved persons regime).</p> <p>The <i>approved person</i> will also be verifying that the Supervisory (Internal Audit) Committee has carried out a bank reconciliation, as part of their internal audit during the quarter, which is independent of the bank reconciliation carried out by the treasury team each month. The purpose of carrying out an independent bank reconciliation is to safeguard the assets of your <i>credit union</i> and to ensure that the committee of management is carrying out its duties in accordance with your <i>credit union's</i> rules, relevant legislation and regulatory requirements. This will include verification of the "Cash and <i>bank</i> balances" that appear on Page 3 of the Quarterly Return (CQ) under 7A.</p> <p>Any corrections to entries should be initialled by the signatory.</p> <p>Send in the Quarterly Return (CQ) with an original signature, not a photocopy.</p>
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1A	Total shares	The total amount of money held by your <i>credit union</i> , at the quarter end, relating to shares paid in by adult members. This figure should take account of all changes made during the quarter.
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Loans to members

1B	Total loans to members	The total amount outstanding at the quarter-end on all loans to adult members (irrespective of when such loans were made). It will include any loans written off during the period.
1C	Bad debts written off	The total amount of loans written off during the quarter should be entered into this box. These are delinquent loans that your <i>credit union</i> believes are likely to be irrecoverable and may therefore be written out of the accounts. Writing off loans does not prevent your <i>credit union</i> continuing to seek repayment.
1D	Interest receivable	The total amount of Interest receivable on loans and other investments during the quarter should be entered into this box.
1E	Total net liabilities	The total net liabilities on all loans. To determine the total net liabilities please refer to "Arrears Analysis" at 6 below.
	Provision for doubtful debts	Please note: CRED 10.5.4G states that in order to comply with CRED "it will be necessary for a <i>credit union</i> to review its provisioning requirements frequently (that is, at least monthly)". Below we set out the minimum requirements your <i>credit union</i> will need to meet. However, your <i>credit union</i> may need to make additional provisions to reflect the risks and/or potential risks bad debts will have on the <i>credit union</i> .
1F	Specific	Provision for doubtful debt – specific, refers to the provisions that your <i>credit union</i> has actually made to cover loans in arrears as laid down in CRED. CRED (10.5.2R) states that your <i>credit union</i> should make the following specific provisions: <ul style="list-style-type: none"> • 35% on all net liabilities on loans which are over 3 months and up to 12 months in arrears. • 100% provision on all net liabilities on loans which are over 12 months in arrears <p>The net liability on a loan is calculated as follows:</p> <p style="text-align: center;">(Total loan + outstanding interest) - Shares</p> <p>Where a member's shares exceed the net liabilities on the loan, there is no liability and it can be excluded from provisioning.</p>

1G	General	<p>Provision for doubtful debt – general, refers to the provisions that your <i>credit union</i> has actually made to cover potential doubtful debts, in the future. As laid down in CRED, these are loans which:</p> <ul style="list-style-type: none"> • are currently not in arrears; or • are up to and including 3 months in arrears. <p>Your <i>credit union</i> should make a 2% provision for the net liabilities of all these loans – all loans which are not covered by the specific provisions above at (1F).</p> <p>The net liability on a loan is calculated as follows:</p> <p style="text-align: center;">(Total loan + outstanding interest) – Shares</p> <p>Where a member's shares exceed the net liabilities on the loan, there is no liability and it can be excluded from provisioning.</p> <p>Your <i>credit union</i> will still wish to enforce a strict policy of chasing loans arrears that are fully covered by shares (and therefore not subject to our provisioning requirements). Whilst many <i>credit unions</i> automatically make share to loan transfers to offset any missed payments (when a member falls behind with their loan repayments), you need to be aware of the impact, if any, such a policy may have on your <i>credit union</i>.</p>
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Credit union liabilities		page 3 of CQ
		<p>Chapter 7 (Investments and borrowing) of <i>CRED</i> sets out the criteria for <i>credit unions</i>.</p> <p><i>CRED</i> 7.3.3R states that "the borrowings of a <i>version 1 credit union</i> must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the <i>credit union</i>". Short-term is defined as not more than "the end of two consecutive quarters" (<i>CRED</i> 7.3.4E).</p>
2A	Borrowings from other credit unions	<p>The total closing balances of all loans received by your <i>credit union</i> from other <i>credit unions</i> at the end of the quarter.</p> <p>However, subordinated debt does not fall into this group.</p>
2B	Authorised overdrafts	<p>The total closing balances of all authorised overdrafts used by your <i>credit union</i> from <i>banks</i> at the end of the quarter.</p> <p>The figure to be reported here is the figure drawn down and not the agreed limit on the overdraft facility.</p>
2C	Committed facilities granted	<p>A committed facility is a committed line of credit, other than an overdraft, from a <i>bank</i>. These are funds immediately available from a <i>bank</i> and constitute a loan.</p> <p>The total closing balances of all committed facilities used by your <i>credit union</i> from <i>banks</i> at the end of the quarter.</p> <p>The figure to be reported here is the figure drawn down and not the agreed limit on the committed facility.</p>

2D Other borrowings The total closing balances of all other borrowings (not covered by **2A**, **2B** or **2C** above) received by your *credit union* at the end of the quarter. This will include all subordinated debts which do not count towards Capital Requirements - please refer to details at **5D** for guidance.

Whilst the majority of *credit unions* will not have subordinated debts, those that do should take into account the following when working out how much of any subordinated debts count towards other borrowings:

Years to maturity

Amount of subordinated debt counting towards other borrowings

More than 4

Nil

Less than and including 4 but more than 3

20%

Less than and including 3 but more than 2

40%

Less than and including 2 but more than 1

60%

Less than and including 1

80%

Subordinated debts are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loan should have an original term of over five years.

2E Total borrowings This figure is calculated using the following formula:

$$2A + 2B + 2C + 2D = 2E$$

2F Borrowings as % of total shares To determine this ratio your *credit union* will use the following formula:

Total borrowings (2E)

X

100

Total shares (1A)

1

Income and expenditure should be calculated using the accruals based accounting method.

3A Total income The total income generated by your *credit union* during the financial year to date (YTD). Total income may include:

- entrance fees;
- interest receivable on loans;
- interest on investments; and
- grants released during the financial year to date (YTD).

However, this is not an exhaustive list.

3B Total expenditure The total expenditure by your *credit union* during the financial year to date (YTD). We advise *credit unions* to make provision here for known expenses such as audit fees and other known fees payable by the *credit union* for the financial year. The purpose of this is to offset any fluctuation in your *credit union's* solvency/capital position, especially in the first quarter of the *credit union* financial year when many expenses fall due.

- Provisions for anticipated tax and dividends are required by *CRED* 8.2.1R. Tax is usually payable on any interest received on *bank* accounts or investments (unless it clearly stipulates that the investment is exempt from taxation).
- Provisioning will be made pro rata on a monthly or quarterly basis.

If you have any questions regarding the tax your *credit union* will need to pay you should consult your local Inland Revenue office.

4A Total assets The total assets of your *credit union* that appear on the Balance Sheet of the relevant monthly financial statement. It may include the following:

- Investments
- Investments of juvenile *deposits*
- Total loans to members
- Cash and *bank* balances

This is not an exclusive list. Your *credit union* will need to refer to its relevant Balance Sheet.

Please note: Unused overdrafts should not be included when calculating the total assets of your *credit union*.

4B Total liabilities (including reserves) The total liabilities of your *credit union*, that appear on the Balance Sheet of the relevant Monthly Financial Statement of your *credit union*. It may include the following:

- Total shares of members
- Reserves
- Juvenile savings
- Total borrowings at **2E** above

This is not an exclusive list. Your *credit union* will need to refer to its relevant Balance Sheet.

CRED states that the following is to be included in calculating Capital:

- audited reserves;
- interim net profits;
- subordinated debts; and
- initial capital.

Please refer to *CRED* 8.2.1R.

Please note: "Negative reserves and any interim net losses must be deducted from capital" (*CRED* 8.2.2R). "When a *credit union* makes a subordinated loan to another *credit union* qualifying as capital under *CRED* 8.2.1R(4)(a), the full amount of the loan (not the amount counting towards the borrower's capital under *CRED* 8.2.4R) must be deducted from the lender's capital" (*CRED* 8.2.5R(1)).

5A	Audited reserves - general	<p>Amount held by your <i>credit union</i> in general reserve, as laid down at <i>CRED</i> 8.3.5R.</p> <p>A <i>credit union</i> is required to transfer at least 20% of its net profits to general reserve each year, until such time as general reserve reaches 10% of total assets. This transfer would usually take place at the financial year end. It is likely that your auditor at the financial year end will advise you on how much you should transfer.</p>
5B	Audited reserves - other	<p>Money that your <i>credit union</i> has set aside out of net profits (in accordance with <i>CRED</i> 8.3.5R) - for example, a "revenue reserve" for unforeseen circumstances.</p> <p>This will include initial capital which has not yet been spent.</p> <p>Please refer to Chapter 8 of <i>CRED</i>. This figure will be negative if your <i>credit union</i> has an accumulated deficit from previous years. "Audited reserves – other" should not be confused with a bad debt "reserve" or provision for bad debts. Please insert "nil" if no other audited reserves are held by your <i>credit union</i> other than a general reserve.</p>
5C	Interim net profits/(loss)	<p>This figure relates to the unaudited profit or loss of your <i>credit union</i>, which will appear on the Balance Sheet of your <i>credit union</i> accounts. The figure relates to the financial year to date (YTD) figures. To work out the profit or loss of your <i>credit union</i> you will use the following formula:</p> <p>3A – 3B = 5C</p> <p>Please ensure that the Interim net profits / (loss) of your <i>credit union</i> has taken account of anticipated expenditure covered under "Total expenditure" at 3B above. The reason your <i>credit union</i> should take account of proposed dividends and other anticipated expenditure are twofold.</p> <ul style="list-style-type: none"> • Firstly, as mentioned at 3B above, it is to offset any fluctuation in your <i>credit union</i>'s solvency/capital position, especially in the first quarter of the year when many expenses fall due. Historically, many <i>credit unions</i> trade at a loss in the first quarter of every financial year – what will your <i>credit union</i> do to overcome this? • Secondly, whilst <i>credit unions</i> may make healthy profits throughout the year, at the financial year end many <i>credit unions</i> transfer the statutory minimum of 20% of profits into reserves. The remainder is often redistributed to members in the form of a dividend. Therefore, not to take account of anticipated dividends would mean that the solvency (which takes account of profits) of your <i>credit union</i> would be artificially exaggerated throughout the year.

5D Subordinated debt

Subordinated debts in **5D** are loans where the lender has agreed to the terms set out on *CRED* 8.2.1R. They are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loans should have an original term of over five years.

Whereas your *credit union* is permitted to raise subordinated debt from a variety of sources, it cannot automatically include subordinated debts when calculating the capital ratio. To be included in the calculation of capital, subordinated debt has to meet the rules laid down in *CRED* (8.2.1R). You will need to refer to this when calculating subordinated debt. Some of the main conditions are listed below:

- When the loan is issued it should have a maturity date of more than five years.
- The conditions attached to the loan should state that the claims of the subordinated creditors rank behind those of all unsubordinated creditors including the *credit union's* shareholders.
- The subordinated debt should not become due and payable before its final maturity date agreed with the creditor (in writing) except in the event of default by non-payment of any interest or principal under the debt agreement or the winding-up of the *credit union*.

Provided the subordinated debt meets the rules laid down in Chapter 8 (Capital requirements) of *CRED*, the following formula will need to be used in writing down your *credit union's* subordinated debt:

Years to maturity

Amount of loan counting towards capital

More than 4	100%
Less than and including 4 but more than 3	80%
Less than and including 3 but more than 2	60%
Less than and including 2 but more than 1	40%
Less than and including 1	20%

5E Total capital

Total capital is calculated using the following formula:

$$5A + 5B + 5C + 5D = 5E$$

**Information for
version 1 credit unions**

Credit unions should be solvent (maintain a positive net worth) at all times. If your *credit union* does not meet this requirement or may not meet it at a date in the future, you should inform your lineside supervisor (person at *FSA* dealing with your *credit union*) immediately, so that we can work with you on ways to resolve the situation.

Whilst the Quarterly Return (CQ) asks your *credit union* for total capital (which includes reserves, interim net profit/ (loss), subordinated debts and initial capital) you will need to be aware that all *version 1 credit unions* "must at all times maintain a positive amount of capital", (*CRED* 8.3.1R) - in other words "a positive net worth". This means that "bad and doubtful debts must be taken into account in establishing whether a *credit union* is maintaining a positive amount of capital", (*CRED* 8.3.4G).

Although we do not ask for this, specifically, on the Quarterly Return (CQ), we are able to work it out from the information already given. Your *credit union* will need to be aware of how we work out the total net worth of your *credit union*. In calculating the total net worth of your *credit union* you will need to take the following into consideration:

Total Capital

£

Actual provision for doubtful debt - specific

£

Minimum provision for doubtful debt - specific

£

Actual provision for doubtful debt - general

£

Minimum provision for doubtful debt - general

£

Total capital

This is the same figure that appears at **5E** on the Quarterly Return (CQ).

Actual provision for doubtful debt - specific

These are the provisions that your credit union has **actually** made to cover loans in arrears as laid down in *CRED*. It is the same figure that appears at **1F** on the Quarterly Return (CQ).

Minimum provision for doubtful debt - specific

Minimum specific provisions are based on all actual net liabilities on loans which are over 3 months in arrears. (Please refer to Arrears

analysis below for further details)

The formula for working out **minimum specific provisions** is as follows:

Arrears Analysis

**Number
Net Liabilities**

A

3 months to 12 months

£

B

Over 12 months

£

C

Total arrears

A+B

£

The above arrears are based on net liabilities

**Information for
version 1 credit unions**

(continued)

Minimum specific provision

£

35% of **A** (arrears - 3 months to 12 month)

100% of **B** (arrears over 12 months)

D

Minimum specific provision

An example on how to work out minimum specific provisions is given below:

Arrears Analysis

	Number	Net Liabilities
<u>A</u> 3 months to 12 months		
	7	£7,000
<u>B</u> Over 12 months		
	10	£10,000
<u>C</u> Total arrears		

A+B

17

£17,000

Minimum specific provision

£

35% of **A** (arrears - 3 months to 12 month)

2,450

100% of **B** (arrears over 12 months)

10,000

D

Minimum specific provision

£12,450

Actual provision for doubtful debt - general

These are the provision for doubtful debt that your credit union has **actually** made to cover potential doubtful debts, in the future, as laid down in CRED. It is the same figure that appears at **1G** on the Quarterly Return (CQ).

Minimum provision for doubtful debt - general

Minimum general provisions are based on all actual net liabilities on loans which are currently not in arrears or are up to and including 3 months in arrears. (Please refer to Arrears analysis below for further details).

The formula for working out **minimum general provisions** is as follows:

Minimum general provision

£

Total net liabilities (**1E** on CQ)

Total arrears over 3 months (C above)

()

E

Total net liabilities subject to general provision

F

Minimum general provision

(2% of E)

**Information for
version 1 credit unions**

(continued)

An example on how to work out minimum general provisions is given below:

Minimum general provision

£

Total net liabilities (**1E** on CQ)

107,250

Total arrears over 3 months (**C**)

(17,000)

E

Total net liabilities subject to general provision

90,250

E

Minimum general provision

£1,805

(2% of **E**)

How is total net worth calculated?

From the above we have established how to work out how much money your *credit union* should be setting aside to adequately cover doubtful debts. *CRED* 8.3.4G states that "bad and doubtful debts must be taken into account" when determining the *credit union's* total net worth.

For this reason, if your *credit union* has not made adequate provisions the shortfall will be deducted from total capital in determining the total net worth of the *credit union*. *Version 1 credit unions* cannot, however, include surplus provisions in this calculation. To calculate the total net worth of your *credit union* you can use the following table:

Minimum Provision

Actual Provision

Affecting net worth

Specific

A
B
If A < B then "nil"
If A > B then (B – A)

General

C
D
If C < D then "nil"
If C > D then (D – C)

Using the figures from the example above:

Actual provision for doubtful debt – specific = £14,000
Actual provision for doubtful debt – general = £1,000

**Minimum Provision
Actual Provision
Affecting net worth**

Specific

12,450
14,000
NIL

General

1,850
1,000
£850

**Information for
version 1 credit unions**

(continued)

The **total net worth** of your *credit union* is:

Total capital

Less: specific provision – affecting net worth

Less: general provision – affecting net worth

For the purpose of this example, total capital is £2,000.

Total capital

£2,000

Less: specific provision – affecting net worth

(£0)

Less: general provision – affecting net worth

(£850)

Total net worth

£1,150

On this example, your *credit union* would satisfy the requirements of *CRED*, since the *credit union* has a "positive net worth".

Capital ratio (for information purposes only)

To determine the capital ratio your *credit union* will use the following formula:

Total capital (**5E**)

X

100

Total assets (**4A**)

1

6A-C	This relates to net liabilities on loans mentioned at "loans to members" – 1B – 1G . There are 2 time periods under which to analyse the number and amount of loans in arrears and have net liabilities attached.
"3 months to 12 months"	All loans which are over 3 months and up to and including 12 months in arrears, and have net liabilities attached.
"over 12 months"	All loans over 12 months in arrears, which have net liabilities attached.
	<p>Please note: Where payments actually received from a member are irregular in timing and/or amount, your <i>credit union</i> needs to have a policy on how to deal with such arrears. Ultimately, how sure can your <i>credit union</i> be that such a loan will not be defaulted upon in the future? The main concern for us is that your <i>credit union</i> can be confident that adequate provisions have been made to offset any potential burdens an irrecoverable debt would place on the <i>credit union</i> in the future. For this reason, it may be prudent for your <i>credit union</i> to make provisions for such risks.</p> <p>For example: If 15 weekly repayments have been missed (or an amount equivalent to 15 weekly repayments is overdue), then the loan is to be included under the "3 months to 12 months" time period, irrespective of when the most recent repayment was received.</p>
Number	The actual number of outstanding loans, within the time periods mentioned above, with net liabilities at the end of the quarter.
Net liabilities	<p>The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the member, including interest - not just the sum of the repayments that have been missed). The formula used is as follows:</p> <p>Loan balance + interest owing – share balance = Net liability</p> <p>The table below is an example on how to work out net liability:</p>

Loans 3-12 months in arrears

	Loan No.
	Loan balance
	Interest owing
	Share balance
	Net liability
	1
£390	
£10	
£200	
£200	
	2
£580	

£20	
£500	
£100	
	3
£4,050	
£150	
£2,200	
£2,000	
	4
£720	
£30	
£1,000	
£0	
	5
£115	
£10	
£50	
£75	
	Total
£5,855	
£220	
£3,950	
£2,375	

From this table we see that there are 4 loans with positive net liabilities. Total net liabilities for this period is **£2,375**.

The **Total** of the number and amount of net liabilities of loans in arrears should also be given. From the example above totals will be as follows:

	Number
	Net Liability
3-12 months	
	4
£2,375	

Over 12 months	0
£0	
Total	4
£2,375	

Liquidity ratio

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- 7A Cash and bank balance The total amount in your *credit union's bank* current account plus any cash in the custody of officers (e.g. cash for the collection point float or petty cash). The following are not to be included in this calculation:
- Authorised overdrafts;
 - Committed facilities;
 - Other investments of surplus funds which will fall into the investments section of liquid assets.

Please note that this relates to money relating to adult members and juvenile depositors. Following recent changes, *credit unions* no longer have to keep the *deposits* of juveniles separate from the shares of adult members. Grants that constitute part of the *bank* balance should be excluded from liquid assets, unless there are adequate funds in long-term investment to cover the amount of the grant used for this purpose.

- 7B Investments (less than 8 days to maturity) *CRED* 9.3.8R states that only investments that could be realised within eight days can be included in calculating your *credit union's* liquidity ratio. It is therefore important that your committee of management takes a long-term view of the *credit union* business before investing surplus funds. Your *credit union* will need to be aware of redemption penalties or other losses you may incur for the early realisation of such funds. In short, most investments can be converted into cash but at a cost.

Please note: This will include any deposit accounts your *credit union* may use.

IMPORTANT NOTICE: Version 1 credit unions should not hold investments with a maturity date of over 12 months (CRED 7.2.2R).

The remainder of the information at **7B** relates directly to *version 2 credit unions*.

CRED 9.3.9E(1) reads:

"For the purpose of calculating a *credit union's* liquidity ratio, the *securities* referred to in *CRED* 7.2.2R – 7.2.3R should be valued on the basis that they could be realised at par, minus the following discounts:

- (a) maturity less than 1 year - Zero
- (b) maturity 1 to 5 years - 5%"

So in events where your *credit union* can realise investments within eight days, you will still need to reduce the applicable figure by 5% for all *securities* with a maturity date of between one and five years.

Example:

Time period**Amount realisable
in 8 days****Amount allowed for liquidity**

Less than 1 year

£200

£200

1 to 5 years

£500

£475

Whilst these are minimum requirements your *credit union* will need to draft and implement a comprehensive Liquidity Management Policy to account for the greater risks attached to longer-term investments.

7C Unused committed facilities

A committed facility is a committed line of credit, other than an overdraft, from a *bank*. These are funds immediately available from a *bank* and constitute a loan.

This relates to a *credit union* that has secured committed facilities from an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* with which your *credit union* holds its current account. Any unused committed facilities can be entered into this box. If your *credit union* does not have any committed facilities this box should be filled by a "nil". We would like to draw your attention to *CRED* (7.3.3R). It states that "the borrowings of a *version 1 credit union* must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the *credit union*". Short-term is defined as not more than "the end of two consecutive quarters" (*CRED* 7.3.4E).

Please note that any unused committed facilities may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We reserve the right to seek evidence of any committed facilities which are used for liquidity purposes.

7D Unused overdrafts

This relates to a *credit union* which has an authorised overdraft arrangement with an institution authorised to accept *deposits* within the EEA. Normally this will be the *bank* with which your *credit union* holds its current account. Any surplus overdrafts which has not been used can be entered into this box. If your *credit union* does not have an authorised overdraft facility this box should be filled by a "nil". Again, we would like to draw your attention to *CRED* (7.3.3R). It states that "the borrowings of a *version 1 credit union* must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the *credit union*". Short-term is defined as not more than "the end of two consecutive quarters" (*CRED* 7.3.4E).

Please note that any unused overdrafts may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We reserve the right to seek evidence that a *credit union* overdraft facility, which is used for liquidity purposes, has indeed been authorised by the relevant *bank*.

7E	Total liquid assets	This figure is calculated by the following: 7A + 7B + 7C + 7D = 7E																																																																																				
7F	Unattached shares/juvenile deposits	<p>Total value of adult shares, which are not attached to a loan, and the total value of juvenile <i>deposits</i> held by your <i>credit union</i>.</p> <p>Because juvenile depositors cannot have loans, all juvenile <i>deposits</i> will be unattached.</p> <p>To assist you in working out the unattached shares for your <i>credit union</i>, we would like to draw your attention to the following three different classifications – which are for illustration purposes only. These are:</p> <p>1. All members who have not got a loan and are not acting as guarantor for a loan;</p> <p>Example:</p> <table border="1"> <thead> <tr> <th>Member number</th> <th>Share balance</th> <th>Loan balance + interest owing</th> <th>Unattached shares</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td>101</td> </tr> <tr> <td></td> <td>£750</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£0</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£750</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>102</td> </tr> <tr> <td></td> <td>£1,201</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£0</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£1,201</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>103</td> </tr> <tr> <td></td> <td>£254</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£0</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£254</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>104</td> </tr> <tr> <td></td> <td>£1,500</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£0</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£1,500</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>Totals</td> </tr> <tr> <td></td> <td>£3,705</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£0</td> <td></td> <td></td> </tr> <tr> <td></td> <td>£3,705</td> <td></td> <td></td> </tr> </tbody> </table>	Member number	Share balance	Loan balance + interest owing	Unattached shares				101		£750				£0				£750						102		£1,201				£0				£1,201						103		£254				£0				£254						104		£1,500				£0				£1,500						Totals		£3,705				£0				£3,705		
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2. All members with loans, but not part of a guarantor agreement;

Example:

	Member number
	Share balance
	Loan balance + interest owing
	Unattached shares
	005
£600	
£750	
£nil	
	006
£1,470	
£1,201	
£269	
	007
£522	
£254	
£268	
	008
£900	
£1,500	
£nil	
	Totals
£3,492	
£3,705	
£537	

3. All guarantors

Example:

Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:

Member number
Share balance
Loan balance + interest owing
Net liability
Unattached shares

	200
£600	
£750	
£150	
nil	
	300
£1,470	
£1,201	
nil	
£269	

The net liability for the loan of member 200 equals £150 and therefore member 200 has no unattached shares.

Member 300 has no net liability, but £269 in unattached shares. Since there is a charge on these shares to the value of the net liabilities of the loan of member 200, the total unattached shares for both members is as follows:

a

Unattached shares of member 300
£269

b

Net liability of member 200
£150

Combined unattached shares (a – b)
£119

		Your <i>credit union</i> will need to closely monitor guaranteed loans when working out unattached shares.
	Liabilities (with an original or remaining maturity of less than three months)	These are all liabilities excluding unattached shares / juvenile <i>deposits</i> (which are already covered in the relevant liabilities being calculated). Only liabilities that fall due within the three-month period are to be included in the calculations. 7G and 7H below fall into this group. Please note: Only those liabilities (repayments of capital and interest) which fall due over the next three months are to be included.
7G	Authorised overdrafts	All drawn down overdrafts which need to be repaid over the next three months are to be included here Example: Your <i>credit union</i> has an overdraft facility of £2,000 . It has drawn down £600 which it expects to pay back over the next six months on a pro-rata basis. Over the next three months your <i>credit union</i> will expect to pay back £300 capital and any interest charges . This is the figure to be included.
7H	Other liabilities/borrowings	These are all liabilities excluding unattached shares / juvenile <i>deposits</i> and authorised overdrafts (which are already covered in 7F and 7G). Included in this category are such things as: <ul style="list-style-type: none">• loans from other <i>credit unions</i>;• loans from <i>banks</i>;• subordinated debts;• committed facilities Example: Your <i>credit union</i> receives a £1,200 loan from your local <i>bank</i> . The terms of the loan agreement state that the loan must be repaid in 12 equal monthly instalments over a year. Your <i>credit union</i> has to pay back £100 capital and outstanding interest at the end of every month. In this instance your <i>credit union</i> should include three monthly repayments (to include capital and interest), when calculating liabilities with maturity of less than three months.
7J	Total relevant liabilities	This figure is calculated by using the following formula: 7F + 7G + 7H = 7J
7K	Liquidity ratio	To determine the liquidity ratio, your <i>credit union</i> will use the following formula:

Total liquid assets (**7E**)

X

100

Total relevant liabilities (**7J**)

1

Whilst these figures relate to the quarter end, your *credit union* will need to look at large *exposures* requirements when issuing loans. For example, a large *exposure* is defined as any individual net liability which is at least £7,500 and at least 10% of the value of the *credit union's* capital.

- 8A Largest net exposure To work out your *credit union's* largest net *exposure* you will need to determine:
- a) the net *exposure* on each loan and find the largest figure.
The formula for this is:
(loan balance + interest owing) - share balance
 - b) what is the total capital of your *credit union*?
This is defined at **5E**.

Say, for example your *credit union's* total capital is £40,000. We know from the above that only net liabilities over 10% of Capital are subject to the large *exposures* rule. Ten percent of £40,000 is £4,000.

However, we further know from the above that only net liabilities over £7,500 are subject to the large *exposures* rule. Below we see all net *exposures* over 10% of total capital and those that do and do not qualify:

Example:

Member number
Share balance
Loan balance + interest owing
Net liabilities
Is it a large exposure?

150
£3,125
£12,500
£9,375
YES

152
£1,750
£10,000
£8,250
YES

103
£3,115
£12,002
£8,887
YES

462
£2,500
£6,700
£4,200

8B As % of capital

An individual large exposure should not exceed **25%** of your credit union's capital (CRED 10.4.2R).

To determine this percentage, your *credit union* will need to use the following calculation:

Largest net exposure (8A)

X

100

Total capital (5E)

1

So:

£9,375

X

100

= 23.44%

£40,000

1

8C Aggregate total of large net exposures This figure relates to the sum total of all net liabilities subject to the large *exposures* rule as defined in **8A** above.
Taking the example at **8A** above, this figure will be **£35,285** (see below).

	Member number
	Share balance
	Loan balance + interest owing
	Net liabilities
	150
£3,125	
£12,500	
£9,375	
	152
£1,750	
£10,000	
£8,250	
	103
£3,115	
£12,002	
£8,887	
	204
£2,138	
£10,911	
£8,773	
	Totals
£10,128	
£45,413	
£35,285	

8D As % of capital *CRED* states that the aggregate total of large net *exposures* should not exceed 500% of the total capital of the *credit union*, and should not exceed 300% of total capital without prior notifying the *FSA*. To see if the example satisfies the rules please use the following calculation:

Aggregate total of large net exposure (8C)

X

100

Total capital (5E)

1

So:

£35,285

X

100

= 88.21%

£40,000

1

Large version 1 and version 2 credit unions

page 4 of CQ

Risk adjusted capital ratio A risk adjusted capital ratio is a requirement for larger *version 1 credit unions* and *version 2 credit unions* under *CRED*.

CRED 8.3.16R states "A *version 1 credit union* with total assets of more than £10 million and/or a total number of members of more than 10,000 must maintain at all times a risk-adjusted capital to total assets ratio of at least 8%"

9A Total capital This figure is the same as the figure that appears at 5E.

9B Net provisions or 1% of total assets – whichever is the lower

Capital should be risk-adjusted for *version 2 credit unions* and large *version 1 credit unions* (CRED 8.4.1R and CRED 8.3.16R). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets (CRED 8.4.2R).

Net provisions are those provisions your *credit union* has made minus minimum specific provisions. In other words:

	Provision		
		minus	
	100% of net liabilities on loans which are 12 months or more in arrears		
		minus	
	35% of net liabilities on loans 3-12 months in arrears		
			=

Net provisions

This figure is calculated by using the following calculation:

Arrears Analysis

	Number Net Liabilities
3 months to 12 months	<u>A</u>
£	
Over 12 months	<u>B</u>
£	
Total arrears	<u>C = A+B</u>
£	

The above arrears are based on net liabilities.

Minimum specific provision

£

35% of **A** (arrears - 3 months to 12 month)

100% of **B** (arrears over 12 months)

D

Total minimum specific provision

Actual specific provision for doubtful debt
(as at **1F**)

Actual general provision for doubtful debt
(as at **1G**)

E

Total actual provisions

Total minimum specific provision (**D**)

()

E

Net provisions

Total assets (as at **4A**)

G

1% of total assets

The figure that needs to be posted to the Quarterly Return (CQ) is the lesser of E and G. If this is a negative figure, the figure that appears on the Quarterly Return (CQ) needs to be a negative figure.

A worked example is given on the next page

Example

Arrears Analysis

Number
Net Liabilities

3 months to 12 months

A
5

£28,000

Over 12 months

B

10

£67,000

Total arrears

C = A+B

15

£95,000

The above arrears are based on net liabilities

Minimum specific provision

£

35% of A (arrears - 3 months to 12 month)

9,800

100% of B (arrears over 12 months)

67,000

D

Total minimum specific provision

76,800

Actual specific provision for doubtful debt
(as at 1F)

70,000

Actual general provision for doubtful debt
(as at **1G**)

10,000

E

Total actual provisions

80,000

Total minimum specific provision (**D**)

(76,800)

E

Net provisions

3,200

Total assets (as at **4A**)

1,120,000

G

1% of total assets

11,200

So the figure to be posted onto the Quarterly Return (CQ) at **9B** is
£3,200.

9C Total risk adjusted capital This figure is calculated using the following formula:

9A + 9B = 9C

9D Total assets This is the total assets of your *credit union* that appears on the Balance Sheet. It will be the same figure that appears in **4A** above. Please note that unused overdrafts or unused committed facilities cannot be used when calculating the total assets of your *credit union*.

9E Risk adjusted capital ratio The risk adjusted capital ratio your *credit union* will use the following formula:

Total risk adjusted capital (**9C**)

X

100

Total assets (**9D**)

1

Notes on completing the Annual Return (CY) for credit unions

FSA Handbook Reference: SUP 16 Ann 15(2)G

CONTENTS	Notes page	Form page
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General information

The Annual Return (CY) should be completed by all *credit unions* in Great Britain at the end of their financial year. The form may be updated from time to time. *Credit unions* should use the form in force at the end of the financial year on which they are reporting. It should be completed using the accruals-based accounting method.

Please read *CRED* in conjunction with these reporting instructions.

Send the fully completed Annual Return (CY) (including a completed auditor's statement) to the Financial Services Authority in accordance with *SUP* 16.3.6R – *SUP* 16.3.13R (see *CRED* 14.10.4G) by the date stated in the *credit union's* rules (which should be within 7 months of the financial year end). Failure to do so is a breach of your regulatory requirements, as laid down in *CRED*, and may result in your *credit union* being subject to *FSA* sanctions.

A copy of the audited annual accounts of the *credit union* (and the auditor's report on those accounts) should also be submitted (see *CRED* 14.10.10R(1)).

If there is no figure to be entered in the box please write "nil", "none" or "N/A" as appropriate.

Care should be taken to avoid errors. The two people who sign page 3 of the Annual Return (CY) should initial any alterations to entries. Correction fluid should **not** be used in correcting entries.

Words in italics denote defined terms which can be found in the Glossary to the main *FSA* Handbook.

"*CRED*" means the Credit Unions Sourcebook.

"*SUP*" means The Supervision Manual (part of the main *FSA* Handbook)

"*APER*" means the Approved Person Manual (part of the main *FSA* Handbook)

'CUA 1979' means the Credit Unions Act 1979.

The number and figure in brackets shown next to the headings refer to the box numbers on the Annual Return (CY) form.

Accounting Policies

Fixed assets	Fixed assets are stated at net book value. Depreciation is provided on fixed assets at rates expected to cover costs over their expected useful lives.
Investments	These are stated at cost, less provision for permanent diminution in value where necessary.
Provision for doubtful debts	This is made in accordance with the rules and guidance set out in <i>CRED</i> 10.5.3E.
Amount of interest	Interest receivable on loans and other investments and payable on loans made to the <i>credit union</i> is to be accrued.

Front page

Name	Insert the registered name of the <i>credit union</i> .
Firm reference number	Insert the number assigned to the <i>credit union</i> by the Financial Services Authority.
Financial year end	Insert the date of the <i>credit union's</i> financial year end (See <i>SUP</i> 16.7.63BR and <i>CRED</i> 14.10.10R(2)(a)).
Version 1 / version 2 requirement	See <i>FSA</i> Handbook Glossary for definitions.

Details of the credit union

	Name	Insert the registered name of the <i>credit union</i> .
	Firm reference number	Insert the number assigned to the <i>credit union</i> by the Financial Services Authority.
	Address	Enter the registered address of the <i>credit union</i>
	Affiliation	Insert the name of the trade association that the <i>credit union</i> is affiliated to. If the <i>credit union</i> is not affiliated, insert "none".
A1	Membership	<p>Indicate in the appropriate boxes the number of members that the <i>credit union</i> currently has in each category of membership.</p> <p>A "non-qualifying" member is someone who no longer fulfils the membership qualification, having once done so e.g. he or she no longer lives in the common bond area. No more than 10% of the total membership of the <i>credit union</i> should be "non-qualifying".</p> <p>A "juvenile depositor" is a person who is too young to be a member - someone under the age of 16 - who can save up to a maximum of £5,000, but cannot take out a loan from the <i>credit union</i>.</p>
	Audited accounts	Delete "Yes or No" as appropriate. Audited annual accounts are required by the Friendly and Industrial and Provident Societies Act 1968. <i>CRED</i> 14.10.9G and <i>CRED</i> 14 Ann 1G give guidance about the statutory accounts. Attach a copy of the accounts before returning the Annual Return (CY). See <i>CRED</i> 14.10.10R.
A4	Computer software	Please insert the name of the software system the <i>credit union</i> uses.
	Bankers	Please insert the name of the <i>bank</i> or <i>building society</i> the <i>credit union</i> holds its current account with.
A5	Number of staff members paid for by the credit union	Please insert the relevant number of full and part time staff the <i>credit union</i> employs. This figure should not include staff who work at the <i>credit union</i> but whose wages are paid by another organisation.
A6		
A7	Number of staff members paid for by other organisations	Please insert the number of paid staff that the <i>credit union</i> has that are paid for by outside organisations.
	Paid staff members - approved persons	Please delete either yes or no as appropriate.

Fidelity bond insurance

The purpose of this section is to ensure that the *credit union* had sufficient and continuous insurance in place during the period covered by the Annual Return (CY).

	Policy issued by	Insert the name of the company providing the insurance to the <i>credit union</i> .
A8	Date of inception of policy or last renewal	Insert the date that the policy originally started or the date on which it was last renewed. The date of the last renewal is likely to coincide with the <i>credit union's</i> year-end (prior year).
A9	Date of expiry of policy	This should be the date that the policy held by the <i>credit union</i> expires. It is likely to be the same date as the year-end for this return.

A10 **Amount of cover** The amount of cover actually provided should be available from the bonding certificate or insurance policy.

Table showing the amount of cover required (CRED 7A.1.10R)

Aggregate value	Cover required in respect of any one claim	Cover required in respect of total claims made in any one year
Less than £10,000	The higher of £500 or 50 per cent of the aggregate value	The higher of £1,000 or 100 per cent of the aggregate value
£10,000 to £100,000	The higher of £5,000 or 20 per cent of the aggregate value	100 per cent of the aggregate value
More than £100,000	The higher of £20,000 or 15 per cent of the aggregate value	The higher of £100,000 or 75 per cent of the aggregate value
Over £1,000,000	£150,000 plus 5 per cent of value over £1,000,000 (subject to a maximum of £2,000,000)	£750,000 plus 5 per cent of value over £1,000,000 (subject to a maximum of £4,000,000)

A11 **All claims in any one year** The total amount of claims that the *credit union* has made on its fidelity bond insurance policy in this financial year.

A12 **Were any claims made?** Please answer yes or no.

Signatures

The signatories should not sign the form until they have made sure that all entries are complete.

One signatory should be a member of the committee of management.

One signatory should be the secretary of the *credit union*.

Any corrections to entries should be initialled by each of the two signatories. Send in the form with originals (**not** photocopies).

Balance sheet

The balance sheet sets out the *credit union's* total assets, reserves and liabilities at the end of the financial year.

ASSETS

1A **Fixed assets** The figure entered here should include the value of any property the *credit union* owns (e.g. the *credit union's* registered office, computer or office equipment). Depreciation of the fixed assets should be deducted before the figure is entered into the box.

Current assets

1B Investments – *Banks and Building Societies* The total of money held in a *bank* or *building society* investment account: this will be separate from the current account that the *credit union* holds and will usually pay more interest on the monies held.

Credit unions may only invest this money in *deposits* or loans to:

(1) a UK domestic firm with Part IV permission to accept deposits;

(2) an institution which is authorised in any other EEA State to accept deposits (See CRED 7.2.1R)

1C	Investments – securities	<p>The total of money held in <i>securities</i>.</p> <p>A <i>credit union</i> may only invest this money in: sterling-denominated <i>securities</i> issued by the government of any EEA State; (2) and fixed-interest sterling-denominated <i>securities</i> guaranteed by the government of any <i>EEA State</i> (See <i>CRED 7.2.1R</i>).</p> <p>A <i>version 1 credit union's investments</i> should not have a maturity date exceeding 12 months from the date the <i>investment</i> was made. (<i>CRED 7.2.2R</i>)</p> <p>A <i>version 2 credit union's investments</i> should not have a maturity date exceeding five years from the date the <i>investment</i> was made. (<i>CRED 7.2.3R</i>)</p> <p>Further information can be found in <i>CRED Chapter 7</i> (Investment and borrowing).</p>
1D	Investments juvenile deposits	The <i>investments</i> held in respect of the <i>credit union's</i> juvenile depositors.
	Due from members for loans	The total amount outstanding at the year-end on all loans to members.
1E	Secured loans	The total amount outstanding to the <i>credit union</i> that is secured e.g. on shares or property. This figure will exclude any loans written off during the financial year. Please note that if loans are secured on property, a legal charge should be taken out by the <i>credit union</i> to ensure that the loan is properly secured.
1F	Unsecured loans	The total amount of loans that are made to members but are not fully secured as indicated above. This figure will exclude any loans written off during the financial year.
	Less: Provision for doubtful debts	This figure is deducted from the loan balances and is therefore shown as a negative.
1G	General provision	<i>CRED 10.5.3E</i> sets out that <i>credit unions</i> should maintain a general provision for bad and doubtful debts of at least 2% of net liabilities not already covered by specific provisioning on loan arrears (1H). General provisions are provisions that your <i>credit union</i> has made to cover potential doubtful debts in the future. These are loans currently not in arrears or loans that are in arrears up to three months.
1H	Specific provision	<p><i>CRED 10.5.2 R</i> states that a <i>credit union</i> must make specific provision in its accounts of at least:</p> <ol style="list-style-type: none"> (1) 35% of the net liability to the <i>credit union</i> of borrowers where the amount is more than three months in arrears. (2) 100% of the net liability to the <i>credit union</i> of borrowers where the amount is more than 12 months in arrears. <p>Net liability on a loan can be calculated as follows:</p> <p style="text-align: center;">(Total loan + outstanding interest) – shares</p> <p>Where a member's shares exceed the amount held in loan there is no risk to the <i>credit union</i> and no provision needs to be made.</p> <p>Please note that these are minimum requirements and your <i>credit union</i> may need to make additional provisions to reflect the risks and/or potential risks bad debts will have on the <i>credit union</i>.</p>
1J	Due from other <i>credit unions</i>	The total amount outstanding at the year-end on all loans made to other <i>credit unions</i> (irrespective of when the loans were made).

1K	Cash and <i>bank</i> balances	The total amount in the <i>credit union's bank</i> account, plus any cash that the <i>credit union</i> holds (e.g. collection point floats or petty cash). If the <i>credit union</i> has drawn upon its overdraft facilities, the amount owed should be inserted in box 2D of the balance sheet.
1L	Other debtors	Any monies owed to the <i>credit union</i> from organisations not listed above.
1M	Prepaid expenses	These are bills that the <i>credit union</i> has paid but the benefit falls into a later accounting period e.g. insurance premiums.
1N	Other	This can include any other assets not covered in the above boxes. It may include suspense accounts that have been opened to correct an error. A suspense account figure should only appear under "assets" if the error results from over debiting and the amount is expected to be recoverable. Any entries made here should be itemised.
1P	Total assets	This figure is the sum total of boxes 1A-1N .

LIABILITIES

2A	Juvenile deposits	The total amount due to juvenile depositors.
	Loans	
2B	Borrowings from other credit unions	The figure for the amount outstanding on any loan that the <i>credit union</i> may have received from another <i>credit union</i> .
2C	<i>Bank</i> loan	The figure for the amount outstanding on any loan that the <i>credit union</i> may have received from a <i>bank</i> . <i>A version 1 credit union</i> may not borrow more than 20% of the total shareholding (see box 13d) of the <i>credit union</i> except on a short-term basis. Subordinated debt does not form part of the later calculation. (See <i>CRED</i> 7.3.3R-7.3.6R for more information.)
2D	Authorised overdrafts	The amount that the <i>credit union</i> is overdrawn at the <i>bank</i> . This figure should not be shown on the assets side of the balance sheet.
2E	Grants	Total amount of grants that the <i>credit union</i> has received but not yet released to revenue.
2F	Other creditors and accruals	Money that the <i>credit union</i> owes with respect to bills or interest still owing on loans.
2G	Corporation tax	The amount of tax owed by the <i>credit union</i> at the year-end in respect of corporation tax. Corporation tax is payable on interest earned on non-trading income e.g. bank account interest.
2H	Interest to juvenile depositors	The amount of interest payable on juvenile accounts that the <i>credit union</i> has not paid at the end of the financial year.
2J	Applications	Total monies applied to dividend, rebate of interest and donations in the current year but not yet paid to members.
2K	Other	This should include any other liability not covered above. All entries made here should be fully itemised.
2L	Total liabilities	This figure is the sum total of boxes 2A-2K .
2M	Net assets	This is the sum of total assets minus total liabilities (1P minus 2L).

Credit union capital and reserves

2N	General reserves	Amount held by the <i>credit union</i> in general reserve (See <i>CRED</i> 8.3.5R.)
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2P Other reserves Money that the *credit union* has set aside out of profits e.g. a revenue reserve to provide for unforeseen circumstances. Other reserves are entirely voluntary and do not have to be held by the *credit union*.

2Q-R Subordinated debt Subordinated debts in **2Q-R** are loans where the lender has agreed to the terms set out on *CRED* 8.2.1R. They are loans to the *credit union* where the lender has agreed to rank behind everyone else, if the *credit union* fails, in terms of recovering their money. The loans should have an original term of over five years.

Whereas your *credit union* is permitted to raise subordinated debt from a variety of sources, it cannot automatically include subordinated debts when calculating the capital ratio. To be included in the calculation of capital, subordinated debt should meet the rules laid down in *CRED* 8.2.1R(4). You will need to refer to this when calculating subordinated debt. Some of the main conditions are listed below:

- When the loan is issued it should have a maturity date of more than five years.
- The conditions attached to the loan should state that the claims of the subordinated creditors should rank behind those of all unsubordinated creditors including the *credit union's* shareholders.
- The subordinated debt should not become due and payable before its final maturity date except in the event of default by non-payment of any interest or principal under the debt agreement or the winding-up of the *credit union*.

Please note that only subordinated debt counting towards capital should be shown in **2Q-R**.

To meet the subordinated debt rules laid down in Chapter 8 (Capital requirements) of *CRED*, the following formula should be used in writing down your *credit union's* subordinated debt (see *CRED* 8.2.4R):

Years to maturity	Amount of loan counting towards capital
More than 4	100%
Less than and including 4 but more than 3	80%
Less than and including 3 but more than 2	60%
Less than and including 2 but more than 1	40%
Less than and including 1	20%

2S Total capital The total of boxes 2N-2R.

2T Members' share balances Total amount of money held by the *credit union* in respect of shares paid in by adult members.

2U Total capital and share balances This is the sum of total capital plus members' share balances. This figure should be equal to the net assets figure shown in box **2M**.

Revenue account

The Revenue Account sets out the *credit union's* total income and expenditure, in order to arrive at the profit for the year.

Income		
3A	Entrance fees	The total amount of money the <i>credit union</i> has received through entrance fees from new members.
3B	Interest from members' loans	The total amount of interest earned on loans made to members.
3C	<i>Bank</i> interest	The total amount of interest receivable on the <i>credit union's bank</i> account.
3D	Other investment income	The total amount earned on investments held by the <i>credit union</i> .
3E	Profit on sale of investments and assets	Profit earned on any investment or asset sales.
3F	Bad debts recovered	The amount of debts that the <i>credit union</i> has recovered having previously written them out of the accounts.
3G	Administrative charges on juvenile account	The amount earned by the <i>credit union</i> on any administrative charges to juvenile depositors.
3H	Grants	Money received by the <i>credit union</i> in the form of a grant from another organisation and released into revenue.
3J	Donations	Money received by the <i>credit union</i> in the form of a donation from a member or another body.
3K	Insurance commission	Money received by the <i>credit union</i> from commission on insurance product sales.
3L	Annual membership fees	Money received by the <i>credit union</i> from charging an annual membership fee for members.
3M	Ancillary service charges	Money received by the <i>credit union</i> from fees for providing ancillary services to members.
3N	Other income	This could be any other form of income received by the <i>credit union</i> that is not covered above by 3A-3M . Any entry made here should be fully itemised.
3P	Total income	This figure is the sum total of boxes 3A-3N .
Expenditure		
4A	Admin expenses	This figure should include the following expenditure items as a total figure: <ol style="list-style-type: none">1. Occupancy costs2. Printing, stationery and advertising costs3. Staff remuneration4. Insurance costs (not fidelity bond)5. Legal fees6. Depreciation7. Other
4B	Auditor's remuneration	Total payable to auditor.
4C	Fidelity bond insurance	Total payable for fidelity insurance.
4D	Management expenses	Total payable for expenses incurred by the officers of the <i>credit union</i> e.g. Officer expenses, honoraria to officers and expenses.
4E	Bad debt provision	The net amount in the year added to the bad debt provision to provide adequately for loan arrears for the whole financial year. This may be a negative amount if arrears have fallen during the year.

4F	Bad debts written off	The total amount of outstanding loans written out of the accounts due to non-payment to the extent that they have not been charged to the bad debt provision. These are delinquent loans that your <i>credit union</i> believes are likely to be irrecoverable and has therefore been written out of the accounts. Writing off loans does not prevent your <i>credit union</i> continuing to seek repayment.
4G	<i>Bank charges</i>	Charges payable on the <i>credit union's</i> bank accounts.
4H	Interest charged on borrowings	This is total amount of interest the <i>credit union</i> has paid on borrowings. This figure is the sum total of boxes 22C, 23C, 24C and 25C .
4J	Loss/revaluation on investments/assets	The total amount that the <i>credit union</i> has lost on investment sales and asset revaluation. This should not include depreciation as this is a capital movement not an expenditure item.
4K	General insurance	The total amount that the <i>credit union</i> has paid for general insurance during the year.
4L	LP/LS insurance	The total amount that the <i>credit union</i> paid on LP/LS insurance.
4M	FSA and related fees/costs	The total amount that the <i>credit union</i> paid to the FSA during the year. Please note that this figure should include the costs of the <i>Financial Ombudsman Service</i> .
4N	Trade association membership dues	The total amount the <i>credit union</i> paid to its trade association for membership during the year.
4P	Other	This should include any expenditure items not covered in the other boxes. Any entry made here should be fully itemised. For example loans made to other <i>credit unions</i> that have been written off due to non-payment.
4Q	Total expenditure	This figure is the sum total of boxes 4A-4P .
4R	Income less expenditure	The sum of box 3P less box 4Q .
5	Profit/loss for year before taxation	If the figure is a negative, the <i>credit union</i> made a loss for the financial year. A positive figure denotes that a profit has been made by the <i>credit union</i> .
6	Less taxation	The amount payable by the <i>credit union</i> on any taxable profit. Any tax enquiries should be made to your local Inland Revenue Office.
7	Profit/Loss for year transferred to appropriation account	Amount transferred to appropriation account for distribution.

Appropriation Account

8A	Profit (loss) after tax	The same figure as shown at the end of the Revenue Account at 7 .
8B	Transfer to general reserve	This transfer should be compliant with <i>CRED</i> 8.3.6R – 8.3.8R. For a <i>version 1 credit union</i> if the <i>credit union's</i> general reserve is less than 10% of total assets, the <i>credit union</i> should transfer at least 20% of surplus to general reserve. <i>Credit unions</i> may also make a voluntary transfer to general reserve and that should also be shown.
8C	Transfer to other reserve	The amount the <i>credit union</i> decided to transfer to other reserves after the transfer to general reserve has taken place.
8D	Transfer from general reserve	The <i>credit union</i> can only remove funds from general reserve if the general reserve exceeds 10% of total assets.
8E	Transfer from other reserve	The <i>credit union</i> can transfer funds from other reserves as and when it sees fit.
8F	Transfer to applications	Funds transferred for distribution.

Applications

9A	Transfer from appropriation account	The same as the amount shown at 8F in the appropriation account.
9B	Transfer as % of profit after tax	This is the percentage of profit transferred into the applications account for distribution.
9C	Dividend	The amount of surplus the <i>credit union</i> will pay to members in the form of a dividend.
9D	Rate of dividend	The percentage of dividend paid on members' accounts. <i>Credit unions</i> cannot pay more than 8% dividend to members in any one financial year even if several dividends are paid. If different rates are paid on different types of accounts these different rates should be shown.
9E	Rebate of interest	The amount of surplus that the <i>credit union</i> intends to use as a rebate on interest receivable on members' loans.
9F	Rate of interest rebate	The percentage of interest rebate the <i>credit union</i> has given on members' loans.
9G	Donations	Any monies donated to another <i>credit union</i> or charitable organisation.

Reserves

General Reserve

10A	Opening balance	The amount of general reserve at the end of the last financial year before any additions or subtractions for this financial year.
10B	Transfer from appropriation account	The same as the amount shown at 8B in the appropriation account.
10C	Transfer as % of profit after tax	This sum is the amount transferred as a percentage of profit after tax. For <i>version 1 credit unions</i> : if your general reserve is less than 10% of total assets at the end of the previous financial year, then this figure should be at least 20% of profit.
10D	Transfer from other reserves	Money transferred from other reserves into the general reserve – same as 11F .
10E	Transfer to appropriation account	Money transferred to appropriation account – same as 8D .
10F	Transfer to other reserves	The amount transferred to other reserves – same as 11D .
10G	Closing balance	The total general reserve at the end of this financial year. This should be identical to the figure shown on the balance sheet at 2N . This figure should be the sum of 10A+10B+10D-10E-10F .

Other Reserves

11A	Opening balance	The balance of other reserves at the end of the previous year.
11B	Transfer from appropriation account	The amount transferred from the appropriation account as at 8C .
11C	Transfer as a percentage of profit after tax	This sum is the amount transferred as a percentage of profit after tax.
11D	Transfer from general reserve	The amount transferred as at 10F from general reserve.
11E	Transfer to appropriation account	The amount transferred from other reserves as at 8E into the appropriation account.

11F	Transfer to general reserve	The amount of voluntary transfer the <i>credit union</i> has made from other reserves as at 10D into the general reserve.
11G	Closing balance	The total amount held in other reserves at the <i>credit union</i> at the end of the financial year and identical to the figure in box 2P on the balance sheet. This figure should be the sum of 11A+11B-11D-11E-11F .

Notes to accounts

Membership

12A	Beginning of year	Number of members at the start of the financial year.
12B	Added during year	Number of new members during financial year.
12C	Ceased during year	Number of members who ceased membership during financial year.
12D	Total members	Total members at the end of the financial year. This figure is the sum total of boxes 12A+ 12B – 12C .
12E	Non qualifying at end of year	Total number of non-qualifying members at the end of the financial year. Non-qualifying members are members who once qualified under the common bond but no longer do so. For example, if someone moved outside the common bond area of your <i>credit union</i> or ceased to work for the employer your <i>credit union</i> is related to.
12F	% Non qualifying members	This is the percentage of non-qualifying members of the total membership of the <i>credit union</i> :

$$\frac{\text{Non-qualifying members}}{\text{Total members}} \times \frac{100}{1}$$

Shareholdings

13A	Opening balance	The total shareholdings and juvenile deposits at the end of the last financial year.
13B	Shares in including dividends)	The total amount of shares and juvenile deposits added during the year including any dividend paid. Please note that this should be a total amount and not net amount.
13C	Shares withdrawn including transfers)	The total amount of shares and juvenile deposits that have been withdrawn during the financial year and should include any shares transferred to offset loans outstanding. This figure is a negative entry due to the reduction to total shares
13D	Closing balance	The total amount of shares and juvenile deposits held by the <i>credit union</i> at the year-end. This figure is the sum total of boxes 13A + 13B –13C .
13E	Average share balance	The average share balance of the <i>credit union</i> . This can be calculated by dividing total shares by the total number of members at the end of the year.

13F Value of unattached shares Total value of adult shares and juvenile deposits, which are not attached to a loan. This includes all shares:

- that are not attached to any loan;

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
101	£750	£0	£750
102	£1,201	£0	£1,201
103	£254	£0	£254
104	£1,500	£0	£1,500
Totals	£3,705	£0	£3,705

- which exceed a member's loan balance;

Example:

Member number	Share balance	Loan balance + interest owing	Unattached shares
001	£600	£750	£nil
002	£1,470	£1,201	£269
003	£522	£254	£268
004	£900	£1,500	£nil
Totals	£3,492	£3,705	£537

- which are not used to guarantee a loan;

Example:

Member 200 received a loan on the condition that Member 300 acted as guarantor for the loan. At the quarter end both accounts read as follows:

Member number	Share balance	Loan balance + interest owing	Unattached shares
200	£600	£750	(£150)
300	£1,470	£1,201	£269

The net liability for the loan of member 200 equals £150. Member 300 has £269 in unattached shares. To work out the unattached shares of both members we should complete the following formula:

Unattached shares of member 300	£269
Net liability of member 200	<u>(£150)</u>
Combined unattached shares	£119

Your *credit union* will need to monitor closely guaranteed loans when working out unattached shares.

Loans to Members

14A	Opening balance	The total amount owing to the <i>credit union</i> at the end of the previous financial year.
14B	Loans made to members	The total amount of loans made to members during the financial year.
14C	Interest receivable	The amount of interest charged on loans to members this should not exceed 12.68% per year.
14D	Total repayments (interest and capital)	The total amount of loans (including interest) that have been repaid during the year. The figure should also include loans that have been repaid due to a share to loan transfer. This figure is a negative entry due to the reduction to total loans.
14E	Bad debts written off	The total amount of loans that have been written out of the accounts of the <i>credit union</i> and should be the same as that shown in the Revenue Account at 4F . This figure is a negative entry due to the reduction to total loans.
14F	Closing balance	The total amount of loans that the <i>credit union</i> has out to members at the end of the financial year. This figure is the sum total of boxes 14A+14B+14C-14D-14E .
14G	Number of loans (at year-end)	The total number of loans outstanding at the end of the financial year.
14H	Total net liabilities	The total amount of outstanding on loans (inclusive of interest owing). Net liabilities can be calculated by using the following formula: Loan balance + interest owing – share balance = Net liabilities

15A- C Arrears analysis

This relates to net liabilities on loans. In this section there are 2 time periods under which to analyse the number and amount of loans in arrears and have net liabilities attached:

- "3 months to 12 months" on the Annual Return (CY) refers to all loans which are over 3 months and up to and including 12 months in arrears, and have net liabilities attached;
- "over 12 months" on the Annual Return Form refers to all loans which are over 12 months in arrears, and have net liabilities attached;

Please note: Where payments actually received from a member are irregular in timing and/or amount, your *credit union* should have a policy on how to deal with such arrears. Ultimately, how sure can your *credit union* be that such a loan will not be defaulted upon in the future? The main concern for us is that your *credit union* can be confident that adequate provisions have been made to offset any potential burdens an irrecoverable debt would place on the *credit union* in the future. For this reason, it may be prudent for your *credit union* to make provisions for such risks.

For example:

If 15 weekly repayments have been missed (or an amount equivalent to 15 weekly repayments is overdue), then the loan should be included under the "3 months to 12 months" time period, irrespective of when the most recent repayment was received.

Number	The actual number of outstanding loans, within the time periods mentioned above, with net liabilities at the end of the quarter.
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Net liabilities

The total amount outstanding on all loans (inclusive of interest owing) in arrears for each time period (i.e. if a loan is in arrears, the figure used should be the total net liabilities owed by the member, including interest - not just the sum of the repayments that have been missed). The formula used is as follows:

$$\text{Loan balance} + \text{interest owing} - \text{share balance} = \text{Net liability}$$

The table below is an example on how to work out net liability:

Loans 3-12 months in arrears:				
Loan No.	Loan balance	Interest owing	Share balance	Net liability
1	£390	£10	£200	£200
2	£580	£20	£500	£100
3	£4,050	£150	£2,200	£2,000
4	£720	£30	£1,000	£0
5	£115	£10	£50	£75
Total	£5,855	£220	£3,950	£2,375

From this table we see that there are 4 loans with positive net liabilities. Total net liabilities for this period is £2,375.

The **Total** of the number and amount of net liabilities of loans in arrears should also be given. From the example above totals will be as follows:

	Number	Net Liability
3-12 months	4	£2,375
Over 12 months	0	£0
Total	4	£2,375

Provision for members' doubtful debts

General Provision

16A	Balance at beginning of year	The total general provision at the beginning of the year. General bad debt provisions refer to provisions that your <i>credit union</i> has made to cover potential doubtful debts. These are loans not currently in arrears or loans up to and including three months in arrears.
16B	Increase in year	The total amount added to the general bad debt provision during the financial year.
16D	Decrease in year	The total amount released from the general bad debt provision during the financial year because it was no longer required e.g. because the total amount of loans outstanding has fallen

16E	Balance at end of year	The total general provision at the end of the year. Please note that <i>CRED</i> 10.5.3.E states that a <i>credit union</i> should have a general bad debt provision of 2% of total net liabilities on all loans not covered by the specific bad debt provisioning. This figure is the sum total of boxes 16A+16B-16C-16D and should be the same as box 1G on the balance sheet.
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Specific provision

16F	Balance at beginning of year	The amount that the <i>credit union</i> has specifically provided against loan arrears at the beginning of the financial year.
16G	Increase in the year	The total amount placed into the specific bad debt provision during the financial year.
16H	Written off during year	The total amount of loans written off from the specific bad debt provisions during the financial year.
16J	Decrease in year	The total amount released from the specific bad debt provision during the financial year.
16K	Balance at end of year	The total amount in the specific general reserve at the end of the financial year. To comply with <i>CRED</i> 10.5.2R, all net liabilities on loans over 12 months in arrears should be fully provided for and all loans between 3-12 months should be provided for on a 35% of net liabilities basis. This figure is the sum total of boxes 16F+16G-16H-16J and should be the same as box 1H on the balance sheet.

FIXED ASSETS

17A	Opening cost	The cost of fixed assets the <i>credit union</i> had at the end of the previous financial year.
17B	Additions at cost	The cost of fixed assets purchased during the financial year.
17C	Original cost of disposals	The original cost of fixed assets sold during the financial year, included within 17A. It is shown as a negative, as it reduces the total amount of fixed assets held by the <i>credit union</i> .
17D	Opening depreciation	Total value of depreciation at the end of the previous financial year.
17E	Depreciation charge in year	Total amount of depreciation charged to expenditure this financial year.
17F	Depreciation eliminated on disposals	Total value of depreciation associated with disposals this year, included in 17D.
17G	Closing net book value	The value of fixed assets held by the <i>credit union</i> at the end of the financial year. This figure is the sum total of boxes 17A+17B-17C-17D-17E+17F and matches that shown in the balance sheet at 1A .

INVESTMENTS

Due from other credit unions

18A	Opening balance	The total amount that the <i>credit union</i> had out on loan to other <i>credit unions</i> at the beginning of the financial year.
18B	Transfer to other credit unions during year	The total of loans granted to other <i>credit unions</i> .
18C	Repaid by credit union during year	The total amount of the loan that has been repaid excluding the interest that the <i>credit union</i> has received on that loan.
18D	Capital written off	The total amount of loans made to other <i>credit unions</i> that have been written off due to default or non-payment.

18E	Closing balance	The total amount of outstanding loans made to other <i>credit unions</i> at the year-end. This figure is the sum total of boxes 18A+18B-18C-18D .
18F	Return on investment	The total amount of interest received by the <i>credit union</i> on its loans to other <i>credit unions</i> this should be the end of year balance.

Investments – Bank and Building Societies

19A	Opening balance	The amount that the <i>credit union</i> had in an investment account held at a <i>Bank or Building Society</i> at the beginning of the year.
19B	Invested during year	The amount of money added to the investment account during the year.
19C	Withdrawn during year	The amount of money withdrawn during the year.
19D	Closing balance	The amount that the <i>credit union</i> held in an investment account at the end of the year. This figure is the sum total of boxes 19A+9B-19C .

Investments - Securities

20A	Opening balance	The amount the <i>credit union</i> held in investments at the beginning of the year.
20B	Investments purchased during year	The total cost of new investments the <i>credit union</i> made during the year.
20C	Investment sold during year	Amount received for investments sold during year.
20D	Losses/capital written off	Amount written off during financial year due to losses on sale of investments or a change in their market value.
20E	Closing balance	Amount of investments at end of financial year. This figure is the sum total of boxes 20A+20B-20C-20D .

Cash and Bank balance

21A	Opening balance	Amount held in <i>Bank</i> and in cash at beginning of year.
21B	Increase/decrease)	Amount added/withdrawn from cash/ <i>bank</i> balances during year.
21C	Closing balance	The amount held in cash and at <i>Bank</i> at the end of year. This figure is the sum total of boxes 21A+/-21B .

DEBT LIABILITIES

Borrowings from other credit unions

22A	Opening balance	The total amount of borrowings the <i>credit union</i> had at the beginning of the financial year.
22B	Amount received	The total amount the <i>credit union</i> borrowed from other <i>credit unions</i> during the financial year.
22C	Interest charged for the year	The total amount of interest payable on loans from other <i>credit unions</i> .
22D	Repayments (capital and interest)	The total amount of the loan that the <i>credit union</i> has repaid and is shown as a negative as it reduces the total amount of borrowings.
22E	Closing balance	Total amount of borrowings at year-end. This figure is the sum total of boxes 22A+22B+22C-22D .
22F	Date of final repayment	The date that the last payment is due to the lending <i>credit union</i> .

Bank Loans

23A	Opening balance	The total amount at the beginning of the financial year that the <i>credit union</i> borrowed from a <i>bank</i> .
23B	Amount of loan received	The total amount borrowed by the <i>credit union</i> during the financial year.
23C	Interest charged for the year	The total amount of interest payable on the loan during the financial year.
23D	Repayments (capital and interest)	The total amount the <i>credit union</i> repaid during the financial year.
23E	Closing balance	Total amount of <i>bank</i> loans at end of financial year. This figure is the sum total of boxes 23A+23B+23C-23D .
23F	Date of final repayment	The date that the final repayment is due.

Other borrowings

24A	Opening balance	The total amount of other borrowings that the <i>credit union</i> had at the beginning of the financial year.
24B	Amount of loan received	The total amount of the loan borrowed during the financial year.
24C	Interest charged for year	The total amount of interest payable on the loan during the financial year.
24D	Repayments (capital and interest)	The total amount that the <i>credit union</i> has repaid.
24E	Closing balance	Total amount of other borrowings at financial year-end. This figure is the sum of boxes 24A+24B+24C-24D .
24F	Date of final repayment	The date that the last payment is due to the lender.

Subordinated Debt

Subordinated debts are any loans where the lender has agreed to the terms as set out in *CRED* 8.2.1R. These terms include agreeing to rank behind other creditors including the *credit union's* members in the event of the *credit union* failing.

Total amounts of subordinated debt held by the *credit union* should be shown here although only the amounts attributable to capital calculations should be shown in the balance sheet. Please see the guidance for boxes **2Q-R**.

25A	Opening balance	Total amount of subordinated debt at the beginning of financial year.
25B	Received during year	Total additions to subordinated debt during financial year.
25C	Interest charged for the year	The total amount of interest payable on the subordinated debt.
25D	Repaid during year	Total amount of capital repaid on subordinated debt during financial year.
25E	Closing balance	Total amount of subordinated debt at the end of the financial year. This figure is the sum total of boxes 25A+25B+25C-25D .

Authorised overdrafts

26A	Maximum limit	Maximum amount that the <i>credit union</i> can go overdrawn by.
26B	Charges incurred during year	Total amount of charges during the financial year (<i>bank</i> charges not interest).
26C	Date term expires	Date the overdraft facility expires.

26D	Max amount drawn during year	The maximum amount of overdraft used during the financial year.
Committed facilities		
		A committed facility is a committed line of credit, other than an overdraft, from a bank. These are funds immediately available from a bank and constitute a loan.
		This relates to a <i>credit union</i> that has secured committed facilities from an institution authorised to accept <i>deposits</i> within the EEA. Normally this will be the bank with which your <i>credit union</i> holds its current account. Any unused committed facilities can be entered into this box. If your <i>credit union</i> does not have any committed facilities, enter "nil" in this box. We would like to draw your attention to <i>CRED</i> (7.3.3R). It states that "the borrowings of a <i>version 1 credit union</i> must not exceed, except on a short term basis, an amount equal to 20% of the shareholding in the <i>credit union</i> ". Short-term is defined as not more than "the end of two consecutive quarters" (<i>CRED</i> 7.3.4E).
		Please note: any unused committed facilities may only be used for calculating the liquidity ratio of your <i>credit union</i> , but cannot be used when calculating the total assets of your <i>credit union</i> . We reserve the right to seek evidence of any committed facilities which are used for liquidity purposes.
27A	Maximum limit	Maximum amount that the <i>credit union</i> can call on.
27B	Charges incurred during year	Total amount of charges incurred during financial year for use of standby facility (<i>bank charges</i> not interest).
27C	Date facility expires	Date the standby facility expires.
27D	Max used committed facilities during year	The maximum amount of used committed facilities during the financial year.

Grants

28A	Opening balance	Amount of grants at start of financial year.
28B	Received during year	Total amount of new grants received during the financial year.
28C	Applied during year	Total amount of grants applied during the financial year.
28D	Closing balance	Total amount of grants at the end of the financial year. This figure is the sum total of boxes 28A+28B-23C .
28E	Date Grants expire	Date grant funding ends.

Adult liquidity ratio

Liquid assets

29A	Cash and <i>bank</i> balance	The total amount in your <i>credit union's</i> current <i>bank</i> account and any cash held in the custody of officers. This should be the same as box 1K . The following are not to be included in this calculation: <ul style="list-style-type: none"> • Authorised overdrafts; • Committed facilities; • Other investments of surplus funds which will fall into the investments section of liquid assets.
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29D Unused overdrafts This relates to a *credit union* which has authorised overdrafts arrangement with an institution authorised to accept *deposits* within the *EEA*. Normally this will be the *bank* or *building society* with whom your *credit union* holds its current account. Any surplus overdrafts which have not been used may be entered into this box. If your *credit union* does not have an authorised overdraft facility, enter "nil" in this box. Please note that as laid down in CRED 7.3.4E the total borrowings of a *version 1 credit union* may not exceed 20% of the total adult shareholdings at the end of two consecutive quarters.

Please note: any unused overdrafts may only be used for calculating the liquidity ratio of your *credit union*, but cannot be used when calculating the total assets of your *credit union*. We may seek evidence that a *credit union* overdraft facility, which is used for liquidity purposes, has indeed been authorised by the relevant *bank* or *building society*.

29E Total liquid assets This figure is the sum total of boxes **29A+29B+29C+29D**.

Relevant liabilities

30A Unattached shares Please see earlier definition above at **13F**.

Liabilities (with an original or remaining maturity of less than three months) These are all liabilities excluding unattached shares (which are already covered in the relevant liabilities being calculated). Only liabilities that fall due within three months can be included in the calculations.

30B Authorised overdrafts These are all drawings under authorised overdraft.

30C Other liabilities / borrowings These are all liabilities, excluding unattached shares and authorised overdrafts (which are already covered in the relevant liabilities being calculated here). Included in these calculations are such things as:

- loans from other *credit unions*
- loans from *banks*
- subordinated debt
- committed facilities

Chapter seven (Investments and borrowing) of *CRED* sets out the sources of borrowing available to *credit unions*.

30D Total relevant liabilities This figure is the sum total of boxes **30A+30B+30C**.

30E **Liquidity ratio** To determine the liquidity ratio your *credit union* will use the following formula:

$$\frac{\text{Total liquid assets}}{\text{Total relevant liabilities}} \times \frac{100}{1}$$

Please note that your liquidity level should not fall below 5% at any time and that *version 1 credit unions* should ensure that on no two consecutive quarter ends is the level of the *credit union's* liquid assets below 10% of its total relevant liabilities.

Large exposures

Whilst these figures relate to the financial year end, your *credit union* will need to look at large *exposure* requirements when issuing loans. For example, a large *exposure* is defined as any individual net liability which is at least £7,500 and at least 10% of the value of the *credit union's* capital.

31A Largest net exposure

To work out your *credit union's* largest net *exposure* you will need to determine:

1. the net *exposure* on each loan and find the largest figure. The formula for this is:

(loan balance + interest owing) - share balance

2. what is the total capital of your *credit union*? This is defined at **2S**.

Say, for example your *credit union's* total capital is £40,000. We know from the above that only net liabilities over 10% of Capital are subject to the large *exposures* rule. Ten percent of £40,000 is £4,000.

However, we further know from the above that only net liabilities over £7,500 are subject to the large *exposures* rule. Below we see all net *exposures* over 10% of total capital and those that do and do not qualify:

Member number	Share balance	Loan balance + interest owing	Net liabilities	Is it a large exposure?
150	£3,125	£12,500	£9,375	YES
152	£1,750	£10,000	£8,250	YES
103	£3,115	£12,002	£8,887	YES
462	£2,500	£6,700	£4,200	No
204	£2,138	£10,911	£8,773	YES
109	£4,000	£8,500	£4,500	No

As we can see the largest net *exposure* is that of **member 150** and it is **£9,375**.

31B As % of capital

An individual large exposure should not exceed **25%** of your *credit union's* capital (*CRED* 10.4.2R).

To determine this percentage, your *credit union* will need to use the following calculation:

$$\frac{\text{Largest net exposure (31A)}}{\text{Total capital (2S)}} \times \frac{100}{1}$$

So:

$$\frac{£9,375}{£40,000} \times \frac{100}{1} = 23.44\%$$

- 31C Aggregate total of large net exposures This figure relates to the sum total of all net liabilities subject to the large exposure rule as defined in 31A above.
Taking the example at 31A above, this figure will be £35,285 (see below).

Member number	Share balance	Loan balance + interest owing	Net liabilities
150	£3,125	£12,500	£9,375
152	£1,750	£10,000	£8,250
103	£3,115	£12,002	£8,887
204	£2,138	£10,911	£8,773
Totals	£10,128	£45,413	£35,285

- 31D As % of capital CRED states that the aggregate total of large net exposures must not exceed 500% of the total capital of the credit union, and must not exceed 300% of total capital without prior notifying the FSA. To see if the example satisfies the rules please use the following calculation:

$$\frac{\text{Aggregate total of large net exposure (31C)}}{\text{Total capital (2S)}} \times \frac{100}{1}$$

So:

$$\frac{£35,285}{£40,000} \times \frac{100}{1} = 88.21\%$$

Please note that risk adjusted capital should not be used for the purposes of calculating your large exposures. For all credit unions the total capital figure used here should be the same as box 2S on the balance sheet.

Large version 1 and version 2 credit unions

Risk adjusted capital ratio

A risk adjusted capital ratio is a requirement for larger version 1 and version 2 credit unions under CRED.

CRED 8.3.16R states "A version 1 credit union with total assets of more than £10 million and/or a total number of members of more than 10,000 must maintain at all times a risk-adjusted capital to total assets ratio of at least 8%".

- 32A Total capital The figure for capital will be the figure that appears on the balance sheet at 2S.

32B Net excess provision or 1% of total assets whichever is the lower

Capital should be risk-adjusted for *version 2 credit unions* and large *version 1 credit unions* (CRED 8.4.1R and CRED 8.3.16R). The maximum net figure for provisions that may be included in calculating risk-adjusted capital is 1% of total assets (CRED 8.4.2R).

Net provisions are those provisions your *credit union* has made minus minimum specific provisions. In other words:

	Provision	
minus	100%	of net liabilities on loans which are 12 months or more in arrears
minus	35%	of net liabilities on loans 3-12 months in arrears
=	Net provisions	

This figure is calculated by using the following calculation:

Arrears Analysis	Number	Net Liabilities
3 months to 12 months	A	£
Over 12 months	B	£
Total arrears	C = A+B	£

The above arrears are based on net liabilities

Minimum specific provision	£
35% of A (arrears - 3 months to 12 month)	_____
100% of B (arrears over 12 months)	_____
<u>D</u> Total minimum specific provision	_____
Actual specific provision for doubtful debt (as at 1H)	_____
Actual general provision for doubtful debt (as at 1G)	_____
<u>E</u> Total actual provisions	_____
Total minimum specific provision (D)	(_____)
<u>F</u> Net provisions	_____
Total assets (as at 1P)	_____
<u>G</u> 1% of total assets	_____

The figure that needs to be posted onto the Annual Return (CY) is the lesser of **F** and **G**. If this is a negative figure, the figure that appears on the Annual Return (CY) need to be a negative figure.

A worked example is given on the next page.

Example

Arrears Analysis		Number	Net Liabilities
3 months to 12 months	A	5	£28,000
Over 12 months	B	10	£67,000
Total arrears	C = A+B	15	£95,000

The above arrears are based on net liabilities

Minimum specific provision	£
35% of A (arrears - 3 months to 12 month)	9,800
100% of B (arrears over 12 months)	67,000
D Total minimum specific provision	76,800
Actual specific provision for doubtful debt (as at 1H)	70,000
Actual general provision for doubtful debt (as at 1G)	10,000
E Total actual provisions	80,000
Total minimum specific provision (D)	(76,800)
F Net provisions	3,200
Total assets (as at 1P)	1,120,000
G 1% of total assets	11,200

So the figure to be posted onto the Annual Return (CY) at **32B** is **£3,200**

32C	Total risk adjusted capital	This figure is the sum total of boxes 32A-32B .
32D	Total assets	This is the same as box 1P on the Balance Sheet.
32E	Risk adjusted capital ratio	To determine the risk adjusted capital ratio, your <i>credit union</i> will use the following formula:

$$\frac{\text{Total risk adjusted capital}}{\text{Total assets}} \times \frac{100}{1}$$

Auditor's statement

This statement that the information in the Annual Return (CY) is or is not consistent with the annual audited accounts of the *credit union* should be completed by the *credit union's* auditor (with an attached statement detailing inconsistencies if there are any). It is important to note that the *credit union* remains responsible for the completion of the Annual Return (CY).

Committee of Management

Please complete the relevant details for all *credit union* officers here. The details required are their full name, address, post held at the *credit union* (this should include what committee they sit on), whether they are an *approved person*, their approved person function, and their year of birth.

Whilst a brief list of the main controlled functions are given below, *credit unions* will need to refer to *CRED* Chapter 4 (Senior management arrangements, Systems and Controls) and Chapter 6 (The Approved persons regime) of *CRED*. Please note that only the controlled function number needs to be inserted for example if you are on the *credit union's* committee of management the number would be CF1.

The governing functions of a *credit union* are:

- CF1: The Directors function;
- CF2: The non-executive director function; and
- CF3: The chief executive function.

The required functions of a *credit union* are:

- CF8: The apportionment and oversight function; and
- CF11: The money laundering reporting function.

The system and controls functions of a *credit union* are:

- CF13: The finance function;
- CF14: The risk assessment function; and
- CF15: The internal audit function.